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September 6, 1985

IRON AGE METALS PRODUCER

SPECIAL AISE EXPOSITION SHOW ISSUE

Automation in Steel:

WHAT IT TAKES TO BE THE BEST IN THE BUSINESS

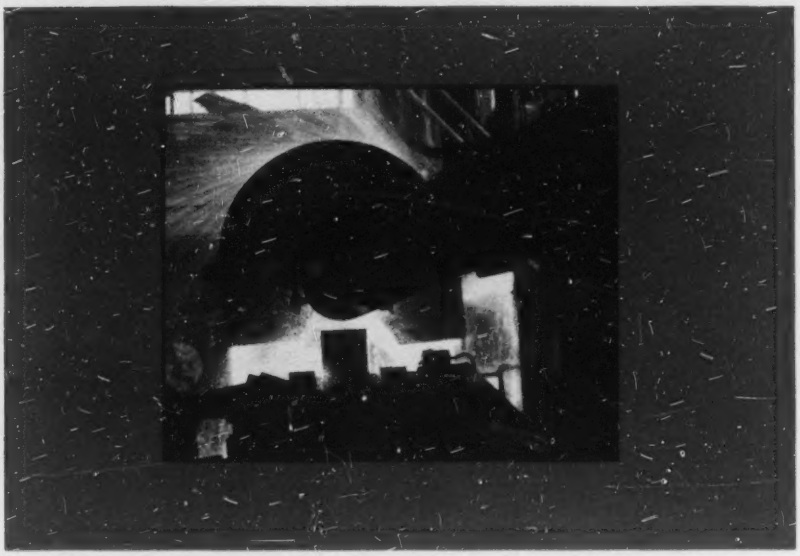
IRON AGE'S ANNUAL FINANCIAL SCOREBOARD:
WAS YOUR COMPANY A PERFORMANCE LEADER?

HOW REFRACTORIES ARE TAKING THE HEAT IN STEEL

SECOND QUARTER STEEL AND
NONFERROUS EARNINGS:
STILL NO END TO THE RED INK

SEPTEMBER 6, 1985 VOL. 228, NO. 17

IRON AGE
METALS PRODUCER



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IRON AGE (USPS 269-780) is published 24 times a year by CHILTON COMPANY, Chilton Way, Radnor, PA 19089. Chilton Co. is a division of American Broadcasting Companies, Inc., New York, N.Y. Second Class Postage Paid at Wayne, PA 19087 and additional mailing offices. IRON AGE is sent on a controlled free basis to qualified managers in U.S. metalworking companies. All others: Manufacturing Management edition—$42 one year, $69 Canada/Foreign (24 issues); Metalsproducer U.S. edition—$24 one year (12 issues); $27 one year (6 issues). Single copies, $2.50. Cable Chilton Philadelphia.
Send address changes to IRON AGE, P.O. Box 1440, Riverton, N.J. 08077.

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NOT BY CASH FLOW ALONE

"Yeah, but what about their cash flow?"

This cutie is often thrown out by critics who would like to see the steel industry lose the investment tax credit.

They concede that steel profits are not all that great but look upon cash flow as a hidden pot of gold.

This is a bit like Marie Antoinette saying, "Let 'em eat cake."

Well, the cash flow isn't there, either.

As you all know, cash flow represents retained earnings plus depreciation plus a grab bag of items I don't want to drag in here.

(Note: Accountants need not write in. Simplicity has its place, particularly here.)

If you think that cash flow just can cover steel's capital equipment needs, look at the table below. Even if you don't think so, it wouldn't hurt to look.

The data comes from the American Iron and Steel Institute. It applies only to the steel operations of 83 pct of its members. The numbers are in millions of dollars.

Now for the table:

Year	1982	1983	1984
Earnings	$-3,385	$-2,235	$-248
Cash Flow	+956	-394	+741
Plant Spending	2,258	1,850	1,189
Shortfall	2,546	1,101	798

What to make of the numbers?

Stay with me.

Starting with the 'Earnings' line, they show the steel industry's profit position is improving.

The negative net income in 1984 was a far cry from the Rocky Horror Show of 1982.

And our second quarter earnings report on p. 85 shows them continuing to improve—not that you can say three of seven or so top producers being in the black calls for a celebration.

Nonetheless, despite ruinous price competition and our government's cavalier attitude toward steel trade agreements, the industry is getting a leg up on cutting costs, paring back losers and upgrading remaining plants.

OK. So, the industry seems poised for a comeback.

But where will the funds come from to push on with plant modernization?

If you say cash flow, I'll throw a fit and suggest you look over the table more closely. Here's why:

Despite some progress, the steel industry's cash flow in the past two years was still not enough to overcome the shortfall between the cash generated by the industry and what had to be spent to modernize and keep it afloat.

How could anyone be short $780 million in one year and over $4 billion in three years and not have to write home for help?

Yet, that's what the investment tax credit is designed to do—sentiment in Congress calls for cutting back or cutting out the ITC just at a time when it may do the steel industry some real good.

Even worse, dumping the ITC is a closely held tenet of the Administration's tax deform, er, I mean, tax reform program. It would cost all U.S. industry some $200 billion in tax credits per year.

Warning: As the facts show, steel can't live on cash flow alone.

This is a bit like Marie Antoinette saying, 'Let 'em eat cake.'

Gene Beaudet

GENE BEAUDET
Editor-in Chief

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CHILTON'S

October 4, 1985

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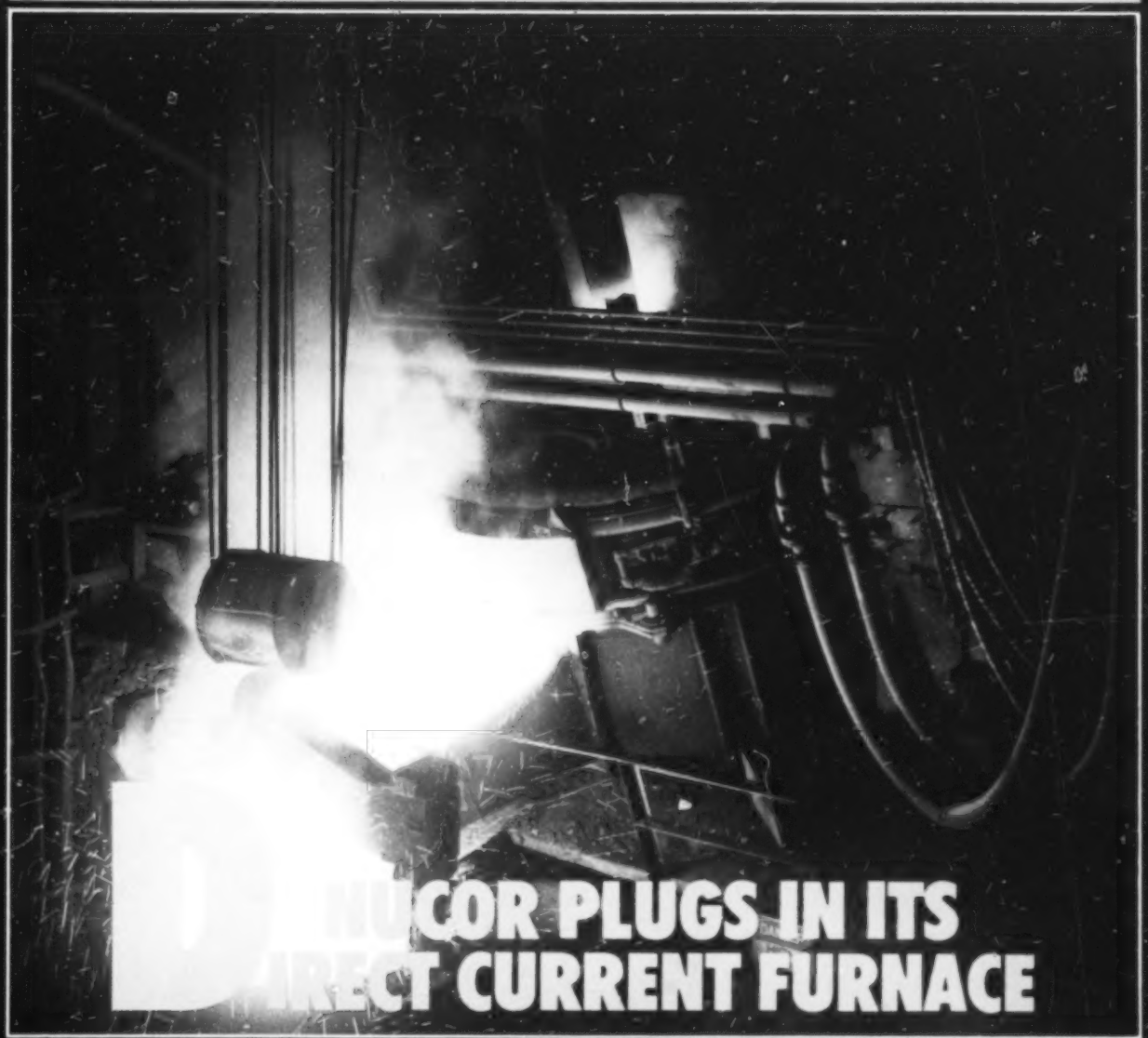

NUCOR PLUGS IN ITS DIRECT CURRENT FURNACE

4TH QUARTER MANUFACTURING FORECAST: SLOWER BUT STILL GOING

INDIRECT TRADE: THE UNCOUNTED STEEL IMPORTS

OCTOBER 4, 1985 VOL. 228, NO. 19

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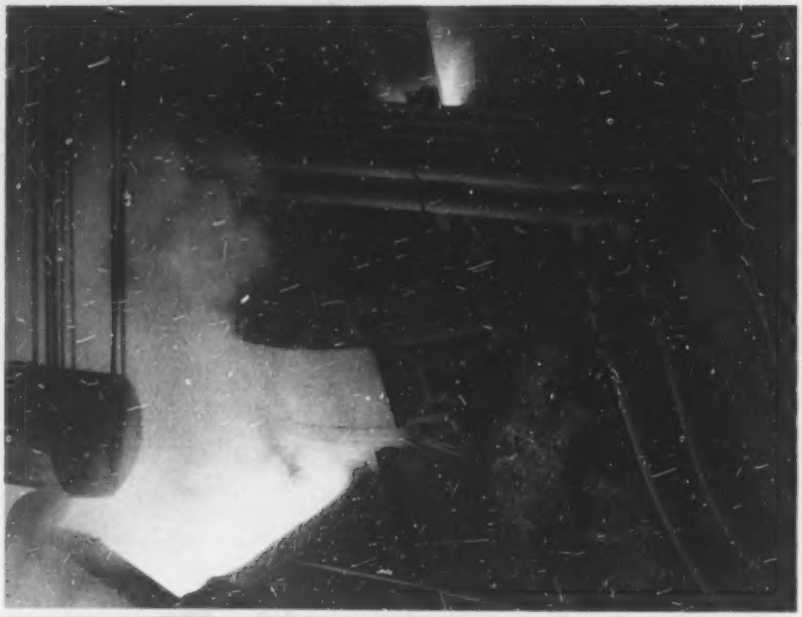

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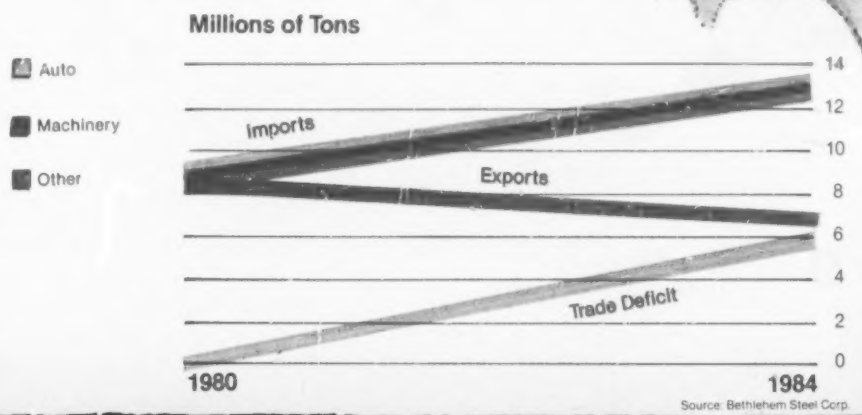
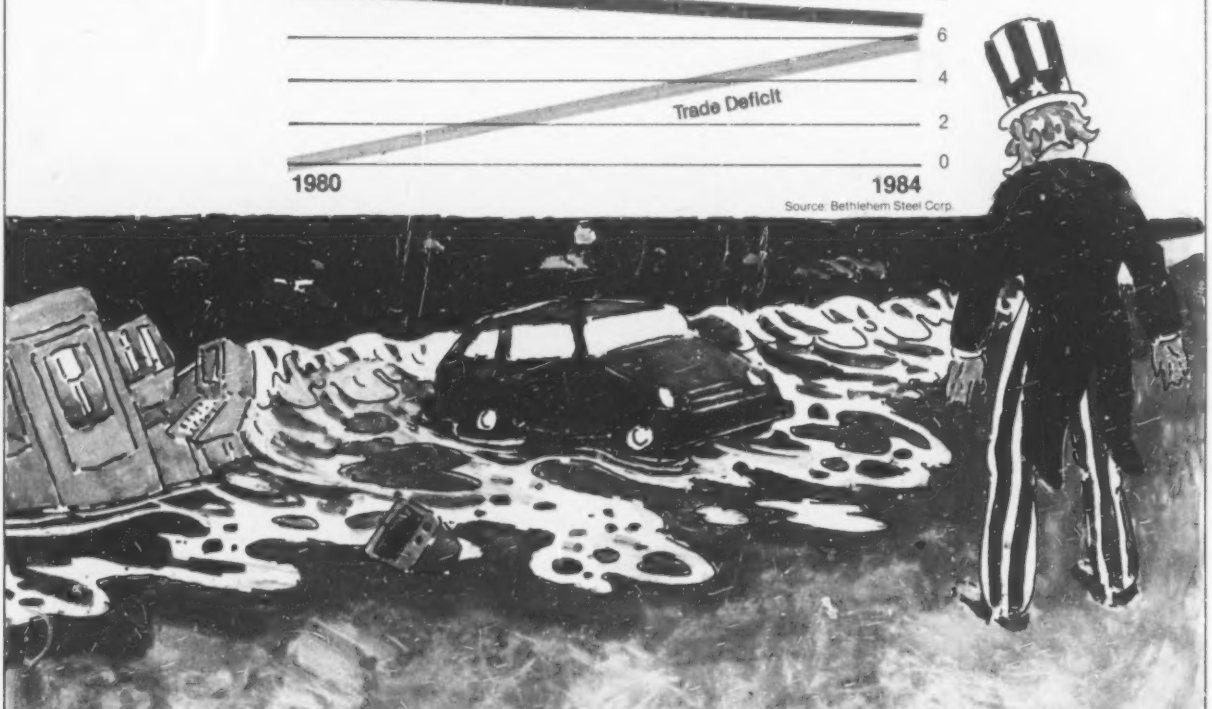
INDIRECT TRADE:
THE UNCOUNTED STEEL IMPORTS

The nation's steelmakers are threatened not only by imports of steel products, but also by the rising tide of autos, machinery and other made-from-steel products arriving on U.S. shores.





BY GEORGE J. MCMANUS

In 1984, the United States imported nearly 40 million tons of steel.

If that number seems high, it's because it includes the 13 million tons of steel contained in imported autos, appliances, and other manufactured products.

These indirect steel imports were part of a three-pronged assault on the domestic market. Direct steel imports rose from under 20 million tons in 1981 to 26 million tons in 1984. Indirect steel imports rose from 9 million tons in 1981 to 13 million tons in 1984. And indirect steel exports fell from 6 million tons in 1981 to 4 million tons in 1984.

The swing in indirect trade is quite recent. "For at least 10 years prior to 1982, the steel content was roughly in balance," said Joseph M. Workman, manager of business planning and marketing administration, Bethlehem Steel Corp.

"By 1984, the situation had deteriorated to a negative balance of about 6 million tons," said Mr. Workman.

(Cont. on p. 65)

1984 IMPORTS OF SELECTED METAL PRODUCTS #QL

(In thousands of dollars)

	Shipments of U.S. Producers	Exports	Net Shipments	Imports	Total U.S. Supply	Import Share
Metal Cutting Machine Tools SIC 3541	$ 2,611	$ 400	$ 2,211	$ 1,150	$ 3,361	34.2%
Metal Forming Machine Tools SIC 3542	$ 1,252	$ 278	$ 974	$ 294	$ 1,268	23.2%
Power Driven Hand Tools SIC 3546	$ 1,887	$ 307	$ 1,580	$ 570	$ 2,150	26.5%
Construction Machinery SIC 3531	$10,650	$2,675	$ 7,975	$ 1,125	$ 9,100	12.4%
Food Products Machinery SIC 3551	$ 2,482	$ 258	$ 2,224	$ 592	$ 2,816	21.0%
Textile Machinery SIC 3552	$ 1,020	$ 255	$ 765	$ 860	$ 1,625	52.9%
Printed Trades Machinery SIC 3555	$ 2,354	$ 480	$ 1,874	$ 700	$ 2,574	27.2%
Telephone & Telegraph Apparatus SIC 3661	$12,640	$ 795	$11,845	$ 1,740	$13,585	12.8%
Semiconductors & Related Devices SIC 3674	$17,737	$5,600	$12,137	$ 7,800	$19,937	39.1%
Engineering & Optical Instruments SIC 3832	$ 7,912	$2,065	$ 5,847	$ 1,142	$ 6,989	16.3%
Motor Vehicle Parts & Accessories SIC 3714	$55,233	$8,786	$46,447	$10,920	$57,367	19.0%
Aircraft Engines & Engine Parts SIC 3724	$10,175	$3,080	$ 7,093	$ 1,401	$ 8,494	16.5%
Household Furniture SIC 251	$15,758	$ 195	$15,563	$ 2,048	$17,611	11.6%
Radio & Television Receiving Sets SIC 3651	$ 6,658	$ 630	$ 6,028	$ 9,000	$15,028	59.9%

Source: U.S. Commerce Department.

In some ways, the indirect imports are a greater concern to domestic steel producers than direct imports. Direct imports can be dealt with through dumping cases, government curbs and commercial reactions. These courses haven't been too rewarding for domestic mills, but they have produced a Reagan Administration commitment to hold down imports.

To the extent that this commitment is meaningful, it will probably tend to steer imports downstream into manufactured products. Even without government restraints, it would be logical for foreign countries to export high value products rather than raw metal. The dollar has weakened a little in the last month or so, but exchange rates still favor imports of foreign products.

To combat imports of autos, machines and the like, domestic mills can only provide the greatest possible value and hope for the best. Part of the value is price, and there's no question the long-term pricing strategy of the domestic steel industry has been influenced by the need to keep customers competitive with manufactured imports.

The steel industry has kept tabs on indirect trade, but as Mr. Workman indicated, this didn't seem an urgent matter until the last few years. Accordingly, indirect trade information was collected in a fairly leisurely and round-about way.

IISI data

Every three years, the International Iron & Steel Institute (IISI) gathered export data from member companies. United States Steel Corp. and the Census Bureau gave the destinations of U.S. metal product exports. The same kind of information was provided by 14 other major countries.

By adding the destination numbers and converting units to tons, IISI was able to calculate the indirect imports of different countries.

The last IISI report, which was for 1982, showed 57 million metric tons of indirect steel exports for the whole world. (Cont. on p. 67)

U.S. INDIRECT STEEL TRADE — 1982

(In thousands of tons)

	IMPORTS	EXPORTS
Intermediate Goods	652.2	78.6
Power Generating Machinery	464.8	492.5
Processing Machinery	256.2	1290.0
Other Machinery	724.9	935.0
Electrical Machinery	275.5	400.6
Agricultural Machinery	228.3	430.3
Rolling Stock	148.7	71.2
Passenger Cars	2820.0	434.5
Commercial Vehicles	1853.0	480.8
Motor Vehicle Parts	1225.8	1506.8
Appliances	103.9	137.3
Other Manufactured Goods	786.5	869.6
Total	9043.2	7179.8

Source: IISI

The total North American intake was 6.8 million tons. In this total, shipments between the U.S. and Canada were treated as internal movements and excluded. With imports from Canada included, the IISI report showed the U.S. indirect steel imports to be more than 9 million tons in 1982. That compared with U.S. indirect exports of a little more than 7 million tons.

The IISI report for 1982 didn't appear until 1985 and it didn't include exports from South Korea, Taiwan, or numerous other developing nations. With indirect trade rapidly rising and broadening, steel men have been seeking more timely and complete statistics.

Working with the American Iron & Steel Institute (AISI), Bethlehem Steel came up with its own estimates. AISI took over the monitoring job from U.S. Steel and has asked the U.S. Commerce Department to provide annual figures on indirect steel trade.

It's no great consolation to steelmakers, but the expanding scope of imports has at least substantiated an old contention. "This is not just a problem of steel and heavy industry," said Mr. Workman.

With imports of semiconductors and other high-tech items zooming, it can't be argued that foreign trade is hurting just a few backward, smokestack industries.

Auto imports

The automobile accounts for the biggest chunk of indirect steel trade. The IISI 1982 report said U.S. imports of passenger cars represented nearly 3 million tons of steel and another 3 million tons were added by imports of commercial vehicles and auto parts.

Bethlehem placed the 1984 steel content of auto imports at 7 million tons. Whatever the exact number, it's about to increase as a result of lifting the restraints on Japan's shipments of autos to the U. S.

"They were shipping cars at the rate of about 1.8 million a year," said David M. Roderick, chairman of U.S. Steel. "They're now saying it will go to 2.4 million or 2.5 million cars. We'll have another 600,000 or 700,000 Japanese cars here this year."

Mr. Roderick noted that the auto market has been the only strong spot for domestic steel producers.

For domestic mills, the big disappointment in the last few years has been the capital goods market. This has never gotten off the ground and one reason has been a sharp trade shift. U.S. imports of capital goods went from $38 billion in 1982 to $62 billion in 1984. Meanwhile, exports were relatively stable.

As a result this country's favorable trade balance on capital goods has been shrinking. The net effect of machinery trade the last few years has been to reduce domestic steel consumption by 2 million tons.

Given the range of today's imports, it might be supposed the affected industries would band together in their efforts to secure government action. As Mr. Workman noted, individual industries were ignored in the past on the pretext that their problems were isolated.

There is an organization called the Trade Reform Action Coalition. This includes everything from the American Mushroom Institute to the International Ladies Garment Workers Union. However, the organization doesn't seem to have any comprehensive trade data.

There may be a comprehensive report somewhere, but repeated calls to the Commerce Dept. failed to produce a single document that identified the major areas of import penetration. □